

FEDERAL GAS TAX FUNDING AGREEMENT MUNICIPAL Q AND A's

PAYMENT OF GAS TAX FUNDS

How will gas tax funds be distributed to municipalities?

A total of \$167.3 million in federal gas tax funds will be distributed to Manitoba municipalities between 2005 and 2010 as follows:

- A straight per capita distribution to all municipalities in years 1 and 2 of the Agreement; and
- 10% allocated for the transit communities of Winnipeg, Brandon, Thompson and Flin Flon, and the remaining 90% allocated on a per capita basis in years 3, 4 and 5.

What are the roles of the Province and the AMM in this Agreement?

The Province is administering the Agreement on behalf of Canada. Among other things, this involves making payments to municipalities and reporting to the federal government on how municipalities have spent their gas tax funds.

The AMM will play an active role in representing the interests of municipalities, which includes serving on the Agreement Oversight Committee. The Committee is comprised of representatives from Canada (2), Manitoba (2) the City of Winnipeg (2) and the AMM (2) and is responsible for monitoring implementation of the Agreement.

What do we have to do to receive our gas tax funds?

Municipalities must first sign a Funding Agreement with Manitoba to receive their gas tax funds. We have included 2 original copies of the Funding Agreement for your municipality in this package.

You must sign both copies and return them as soon as possible to the AMM office. We will then send the Agreements to the Province for signature and payment. A signed copy will be returned to your municipality for your records.

January 20, 2006

When will we get our gas tax funds?

Once the Province receives your signed Agreement, your 2005 gas tax payment will be deposited to your municipality's account without delay. The sooner you sign your Funding Agreement, the sooner you will receive your 2005 payment.

In future years, the Province has committed to make the payments in a timely manner, after receiving funds from Canada in July and November.

Why is a Funding Agreement required?

The Funding Agreement sets out the payment schedule, and the terms and conditions for receiving gas tax funding. It is a standard requirement for municipalities receiving gas tax funds across Canada that allows municipalities to know up front how much they will receive each year and what is required of them.

Can we change the Funding Agreement before signing it?

No, because this is a standard Agreement intended to ensure all municipalities are treated consistently, changes cannot be made. The AMM helped develop the Agreement and has reviewed it with the Association's legal counsel to further assist municipalities.

How much will our gas tax payments be?

Your payments in each year of the Agreement are based on your municipality's population as at the date the Gas Tax Agreement with Canada was signed. The payments are listed in Schedule 1 of your Funding Agreement (attached) and will remain at these amounts over the course of the Agreement, to provide your municipality with greater certainty in capital budgeting over the next 5 years. These amounts are the same as the estimated gas tax payments recently provided to you by the AMM.

Do the gas tax funds replace other infrastructure grants?

No, gas tax funds do not replace other infrastructure funding. Both the federal and provincial governments have committed to ensuring that the gas tax funding does not result in claw-backs of funding under existing infrastructure programs.

Can we bank the funds for future use?

Yes, you may carry-forward unspent funds for up to 5 years to accumulate funds for larger-scale projects. You must, however spend the funds within 5 years of receiving payment.

If 5 years are not sufficient to finish a project, you will need to work with the Province to make arrangements to complete the project in a timely manner to ensure future years' gas tax funding can be cashflowed.

Why are we signing a 10-year Funding Agreement if funding is only provided for 5 years?

While payments are currently scheduled only for the next 5 years (2005 – 2010), gas tax funding is part of the Government of Canada's "New Deal for Cities and Communities" that covers a 10 year period (2005 – 2015). The Oversight Committee responsible for monitoring the Agreement will be working on the next phases of the federal New Deal for Manitoba.

USE OF GAS TAX FUNDS

What can the funds be used for?

Eligible project categories are outlined in Schedule 2 of the Funding Agreement. Essentially, gas tax funds are to be used for environmentally sustainable infrastructure, such as roads and bridges, water and sewer projects, solid waste management, and public transit.

Note: Some types of project costs will not be eligible for gas tax funding, including the costs of feasibility studies, legal fees and routine repair and maintenance costs. Refer to Schedule 3 of the Agreement for a list of these costs.

What types of projects are eligible for gas tax funding in each category? How will we know if a project our municipality wants to undertake is eligible?

Canada would like gas tax funds to be spent on projects that result in positive outcomes such as cleaner water, cleaner air and reduced greenhouse gas (GHG) emissions. You should apply your gas tax funds to projects that will address these goals. For example, upgrades to sewer and water systems will result in cleaner water. New road configurations may reduce travel times, resulting in reduced GHG emissions. Resurfacing roads may reduce airborne dust, resulting in cleaner air. The types of costs incurred are also relevant considerations. In particular consider whether the costs of your project are “routine repair and maintenance” which are ineligible costs.

You should contact the AMM office to discuss whether your project meets these requirements.

Do we need prior approval before spending the funds?

No, prior approval of projects is not required. You will however, have to make sure that the funds are used according to the terms and conditions set out in the Funding Agreement.

Are we required to provide matching funds?

There is no requirement to provide matching funds. You can use gas tax funds to pay up to 100% of the eligible costs of eligible projects.

Why is there a requirement for “incremental” capital spending?

Gas tax funds are being given to municipalities so that they can do more infrastructure projects and reduce their “infrastructure deficit”. Therefore, municipalities must be able to demonstrate that they spent the funds on projects they otherwise would not have been able to undertake.

This means that gas tax funds cannot be used by municipalities to replace existing capital spending.

How will incremental spending be measured? What is meant by the “Base Amount”?

To determine whether municipalities are spending more on capital projects than they did before they received the gas tax dollars, this spending must be measured against some type of past level. The past level is referred to in the Agreement as the “Base Amount”.

An easy way to calculate the “Base Amount” would be to simply take the average of municipal capital spending over the previous 5 years, however this would be unfair to small communities who have just undertaken a major capital project.

The Oversight Committee is currently developing the method to measure incremental spending and determine what costs will be included in the Base Amount. The AMM will be involved to ensure that it reflects a “made in Manitoba” approach.

Can gas tax funds be used for debt financing?

Yes, debt financing is permitted. You may borrow funds against future gas tax payments and use the gas tax funds to repay the principle and interest.

Can gas tax funds be used for administration expenses?

These costs are not eligible under the terms of the Agreement, however you may use the interest earned on your gas tax funds to pay administration expenses. See Schedule 3 of the Agreement for the list of eligible costs.

Can gas tax funds be used for projects that have already started?

Yes, in some circumstances. Provided that the project is an eligible project and the costs are otherwise eligible, gas tax funding can be used for project costs incurred after April 1, 2005.

Can municipalities pool their funds and use them for a regional project?

Yes, you are encouraged to partner with other municipalities to use your gas tax funds for infrastructure projects that will have a regional benefit.

We tendered and awarded contracts for projects prior to April 2005 but have yet to incur costs. Can we still use gas tax funds for these projects?

Yes, based on the Agreement, as long as a project is otherwise eligible and the costs are incurred after April 1, 2005, gas tax funds may be used.

REPORTING

Why do municipalities have to submit an annual report?

Key principles of the Gas Tax Agreement are accountability and transparency to the public for the funds provided. Annual reports are needed so that all levels of government can demonstrate to the public that the gas tax funds have been spent on priority infrastructure projects.

How and when will we have to report?

Municipalities will have to prepare an audited “Annual Expenditure Report” and send it to the Province each year by June 30th. This report will outline how the gas tax funds were spent and can be prepared at the same time as your audited financial statements. Preparing the reports at the same time as the financial statements will minimize audit and administration requirements for municipalities.

The Province will use the information provided by municipalities to submit a province-wide report to the federal government.

What will the report look like?

The specific format and content of the report is currently being developed by the Oversight Committee, but will include:

- the amount of gas tax funds received;
- the amount spent on each eligible project, and
- a description of each eligible project undertaken with gas tax funds, including the project’s expected outcomes.

The AMM’s goal is to ensure that the report will be as easy as possible for municipalities to complete. It is expected that municipalities will be provided with a reporting format shortly.

What are “expected outcomes” and how will we report on them?

It is important to measure the results of any program in order to know if its goals were achieved. Therefore, municipalities are asked to describe the expected outcomes for all projects receiving gas tax funds as part of their Annual Expenditure Report.

Municipalities are also required to report before the end of the agreement on how the projects funded by their gas tax payments contributed to the overall program goals of cleaner air, water and reduced greenhouse gas emissions. The Province will use this information to submit a province-wide report required by the federal government.

The Oversight Committee will develop the method to measure and report on the outcomes, to ensure a consistent approach is used.

What are the Capital Investment Plans and Integrated Community Sustainability Plans? Why are they required?

It is important for municipalities to plan for their capital spending priorities into the future and identify and understand how these spending priorities will help support future development. Therefore, municipalities will be required to prepare a Capital Investment Plan and an Integrated Community Sustainability Plan, in consultation with their citizens, before the end of the Gas Tax Agreement. The intent is not to create new administrative processes, but rather to build on things you already have in place, such as multi-year capital budgets and development plans.

The Oversight Committee will develop the form and content of these plans. The AMM will work with the provincial and federal governments to minimize the administrative requirements for municipalities.

We typically withhold paying 7.5% of construction costs for the Builder’s Lien holdback until a project is complete. When should we report the use of these funds?

The use of gas tax funds should be reported when the dollars are actually spent. In the case of a holdback, you should report these costs in the year in which the funds are paid out. You should always clearly identify the project for which the holdback applies.

Should we itemize the cost of taxes such as Manitoba's Provincial Sales Tax (PST) when reporting project costs?

There is no requirement to separate out the cost of the PST when reporting project costs. However, taxes for which a municipality receives a rebate, such as the federal Goods and Services Tax, are considered ineligible costs in the Agreement. You should subtract these, and any other ineligible costs, from the total project costs when reporting on the use of gas tax funds.

OTHER REQUIREMENTS

Can we use gas tax funds for projects receiving funding from other federal infrastructure programs?

Yes, under certain circumstances. Some federal infrastructure programs have rules regarding federal contribution limits, known as "stacking" rules. These rules set the maximum dollar contribution to a project from any federal funding source, regardless of the project cost-sharing approved under the infrastructure project agreement. Gas tax funds from Canada are considered a federal funding source, therefore, you should make sure you are in compliance with the stacking rules under the federal infrastructure program.

For example, the Municipal Rural Infrastructure Fund (MRIF) stipulates that the maximum federal contribution to a project is 50% of the total project costs. If a municipality is approved for \$150,000 under MRIF cost-shared on a 1/3rd basis (\$50,000 federal / \$50,000 provincial / \$50,000 municipal) and chooses to use some of its gas tax dollars towards the project, they could only use up to \$25,000 in gas tax funds. This would increase the contribution from federal sources to the maximum of \$75,000 (50% of \$150,000) and reduce the municipal MRIF contribution to \$25,000. The provincial contribution would remain at \$50,000.

Can gas tax funds be used for projects funded under provincial infrastructure programs.

Yes, for projects funded under provincial / municipal cost-shared programs, gas tax funds may be used to fund the municipal share of the project.

How will we account for the gas tax funds?

Municipalities will have to hold all gas tax funds separately in a reserve account set up specifically for this purpose. This will allow you to keep track of gas tax funds received and how the funds are spent.

Can we sell or dispose of assets paid for with gas tax funds?

Municipalities can sell assets paid for with gas tax funds at any time to Canada, Manitoba, provincial Crown Corporations, or another municipality. If assets are sold to any other individual or organization within 10 years, some or all of the funds must be repaid - depending on when the asset is sold. See Section 5 of the Agreement for more information.

What are the communication requirements?

Municipalities are required to publicly acknowledge Canada's contribution to projects receiving gas tax funds, which may include signs, press releases or announcements, public events or ceremonies, etc.

Although the communications protocol outlined in Schedule 4 of the Agreement references "permanent signage", the Government of Canada has confirmed that judgement would be used to determine how this requirement could best be met. It is not intended to impose unreasonable costs on municipalities.

Canada is currently developing a web-based toolkit to provide municipalities with more detailed information on these requirements.

Are there any other requirements for the use of these funds?

The Funding Agreement outlines the specific requirements for municipalities in carrying out projects that receive gas tax funds, including environmental licensing, permits, tendering, recordkeeping, etc.

They are consistent with the requirements in other infrastructure programs and with normal municipal capital project and business practices.

What happens if we don't meet the requirements in the Agreement?

The Agreement contains default and remedy provisions if requirements are not met, outlined in Section 6, to ensure that all levels of government remain accountable for the funds provided and fulfil their obligations under the Agreement.

However, it is not the intention to put municipalities into default over “technicalities” or minor delays. The Agreement also specifically provides for discussion between the levels of government to resolve problems before default occurs.

NEXT STEPS

Municipalities are asked to:

- Review the Funding Agreement with Council;
- Sign both original copies; and
- Return both signed original copies of the Agreement to the AMM, who will forward them to the Province for signature and payment.

You may contact the AMM with any questions by calling (204) 856-2360 or (204) 856-2362. For more information on gas tax issues and Q&A's, please see the AMM website at www.amm.mb.ca

Additional information is also available on Infrastructure Canada's website. You may view the Canada-Manitoba Gas Tax Agreement at www.infrastructure.gc.ca/ndcc/agreements/gt_can_mb_e.shtml